Bargaining power of customers:

In the pharmaceutical market in the United States, wholesale pharmaceutical distributers have a high level of buying power when buying drugs from pharmaceutical companies like Eli Lilly and Co. This can be said because, “Three companies generate about 85% of all revenues from drug distribution in the United States” (“Top Pharmaceutical Distributors”). Because only a few customers make up most of the market, each of the three large wholesale drug companies have significant buying power. These wholesale pharmaceutical distributors then sell to pharmacies, where consumers purchase drugs.

Strategic interaction:

Eli Lilly and Co., along with other companies in the drug industry, tries to increase demand for its drugs through two main methods: advertising to the public and sending drug representatives out to convince doctors to prescribe drugs produced by Eli Lilly and Co. The old practice was for drug representatives to try to convince doctors to prescribe the companies medications by any means necessary, but doctors began to cite this “high-pressure, car sales-type approach” (Rockoff, “Drug Reps Soften Their Sales Pitches”) as a reason for not prescribing medications made by Eli Lilly and Co. This caused the company to make a new policy of having drug reps act as more of a resource of information for physicians, rather than as aggressive sales people. “Surveys of doctors show that 85% are satisfied with Lilly, up from the 60% before the company changed ways” (Rockoff, “Drug Reps Soften Their Sales Pitches”).

Pricing strategies:

A pricing strategy incorporated by Eli Lilly and Co. is the use of rebates to large insurance companies. In 2012, Eli Lilly and Co. reported paying $3,563.5 million (SEC, “LLY-2012 Form 10-K”). This essentially separates the market of insured consumers from that of uninsured consumers. The idea behind this might be that insurance companies have more elastic demand than uninsured individuals, so the profit-maximizing strategy is to lower prices for large insurance companies.

Rivalry among existing Competitors

There is a high level of rivalry among existing pharmaceutical companies such as Eli Lilly and Co. This is probably best demonstrated by the advertising expenditures made by firms in the pharmaceutical market. Pharmaceuticals is the second largest group of products in terms of advertising expenditure in 2010 (Neilson, “Trends in Advertising Spend and Effectiveness”). This is also demonstrated by competition to invest in research and development of new drugs. Eli Lilly and Co. currently has 4 different new ten-year drugs under research and development this year, each costing, on average, $6,678 million (Herper, “How Much Does Pharmaceutical Innovation Cost?”).

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